

INVENTORY CONTROL SYSTEMS

SPECIFIC OUTCOMES

- ↑ Prepare the following ledger accounts in general ledger:
 - Trading stock account
 - Creditors allowances
 - Purchases account
 - Carriage on purchases
 - Trading account
- ↑ Calculate the **cost of sales** from given information.
- ↑ Calculate the **gross profit** from given information.
- ↑ Differentiate between the periodic inventory system and the continuous inventory system by preparing certain ledger accounts.

1. WHAT TO REMEMBER

- ↑ There is no continuous recording of the trading stock movements.
- ↑ It is not possible to continuously ascertain from the bookkeeping itself - e.g. from the Trading stock account- what the trading stock on hand should be.

2. FEATURES OF THE PERIODIC INVENTORY SYSTEM

- ↑ **Purchases** of merchandise / trading stock is recorded to **purchases account**, a nominal account and not to trading stock account.
- ↑ **Carriage** on merchandise / trading stock is recorded to **carriage on purchases account**, a nominal account and not to trading stock account.
- ↑ **Returns** and allowances on purchased merchandise / trading stock is recorded on the credit side of **credit allowances account** and not to trading stock account. The credit allowances account is then closed off to the purchases account to calculate the net purchases.
- ↑ **Drawings** of merchandise / trading stock at cost for personal use by the owner is credited to **purchases account** and not to a trading stock account.

ثا **Donation** of merchandise / trading stock at cost is credited to **purchases account** and not to trading stock account.

ثب **In order to determine the cost of sales a calculation has to be made:**

Initial / Opening stock	XXX
Add: Net purchases (purchases - creditors allowances)	XXX
Add: Carriage on purchases	<u>XXX</u>
Cost of goods available to be sold	XXX
Less: Final / Closing stock	<u>(XXX)</u>
Cost of sales	<u>XXX</u>
Sales (net)	XXX
Cost of sales	<u>(XXX)</u>
Gross profit	<u>XXX</u>

SUMMARISED COMPARISON OF THE CONTINUOUS AND PERIODIC INVENTORY SYSTEMS.

The following is a comparison of the entries in the general ledger of the two systems.

Transaction	Continuous inventory system	Periodic inventory system
Credit purchases of merchandise	Debit Trading stock	Debit Purchases
	Credit Creditors control	Credit Creditors control
Cash purchases of merchandise	Debit Trading stock	Debit Purchases
	Credit Bank	Credit Bank
Merchandise returned to suppliers (purchases returns)	Debit Creditors control	Debit Creditors control
	Credit Trading stock	Credit Creditors allowances
Carriage on purchases	Debit Trading stock	Debit Carriage on purchases
	Credit Bank (or creditors control If on credit)	Credit Bank (or creditors control If on credit)
Donation of merchandise	Debit Donations	Debit Donations
	Credit Trading stock	Credit Purchases
Withdrawal of merchandise at cost	Debit Drawings	Debit Drawings
	Credit Trading stock	Credit Purchases

Credit sales of merchandise	Debit Debtors control	Debit Debtors control
	Credit Sales	Credit Sales
	Debit Cost of sales	--
	Credit Trading stock	--
Merchandise returned by customers (sales returns)	Debit Debtors allowances	Debit Debtors allowances
	Credit Debtors control	Credit Debtors control
	Debit Trading stock	--
	Credit Cost of sales	--

ACTIVITY 1

LEDGER ACCOUNTS:

Trading stock	R30 000
Initial stock / Opening stock	?
Final stock / Closing stock	35 000
Purchases account	300 000
Carriage on purchases	25 000
Sales	400 000
Creditors allowances	20 000

Required: The following ledger accounts of GG stores as on 31 December, the last day of the accounting year: Trading stock; Creditors allowances; Purchases account; Carriage on purchases and the Trading account.

ACTIVITY 1

ANSWER SHEET

GENERAL LEDGER OF GG STORES

Balance sheet accounts section

Dr		Trading stock						B9		Cr	
20.2 Jan.	1	Balance	b/d			20.2 Dec.	31	Opening stock	GJ		
Dec	31	Closing stock	GJ								

Nominal accounts section

Dr				Creditors allowances				N15		Cr	
20.2 Dec.	31	Purchases account	b/d			20.2 Dec.	31	Balance/Total	b/d		

Dr				Purchases account				N16		Cr	
20.2 Dec.	31	Balance/Total	b/d			20.2 Dec.	31	Creditors allowance	GJ		
								Trading account	GJ		

Dr				Carriage on purchases				N17		Cr	
20.2 Dec.	31	Balance/Total	b/d			20.2 Dec.	31	Trading Account	GJ		

Dr				Opening stock				N18		Cr	
20.2 Dec.	31	Trading stock	GJ			20.2 Dec.	31	Trading Account	GJ		

Dr				Closing stock				N19		Cr	
20.2 Dec.	31	Trading account	GJ			20.2 Dec.	31	Trading stock	GJ		

Final accounts section

Dr				Trading account				F1		Cr	
20.2 Dec.	31	Opening stock	GJ			20.2 Dec.	31	Sales (net)	GJ		
		Purchases (net)	GJ					Closing stock	GJ		
		Carriage on purchases	GJ								
		Profit & loss account (Gross profit)	GJ								

There is no cost of sales in trading account, therefore the cost of sales has to be calculated.

	R
Initial stock/Opening stock	
Add: Purchases (net)	
Add: Carriage on purchases	
Cost price of goods available to be sold	
Less: Final stock/Closing stock	(_____)
Cost of sales	
	R
Sales (net)	
Cost of sales	(_____)
Gross profit	

ACTIVITY 2

Calculate the cost of sales for each of the following years.

20.1 Has been done for you.

YEAR	20.1	20.2	20.3
Initial stock / Opening stock	45 000		
Purchases (net)	425 000	250 000	300 000
Carriage on purchases	10 000	NIL	15 500
Final stock / Closing stock	(30 000)	(35 000)	(20 000)
Cost of sales	450 000		

ACTIVITY 3

Complete the following table. Each case is independent from the previous one.

Case 1 has been done for you.

CASE	1	2	3	4
Initial stock / Opening stock	46 000	64 000	91 000	
Purchases (net)	136 000	144 000	298 000	906 000
Carriage on purchases	18 000		144 000	23 500
Cost of goods available to be sold	200 000	220 000		990 400
Final stock / Closing stock	(50 000)	(110 000)	(81 000)	
Cost of sales	150 000	110 000		910 000
Gross profit	30 000	40 000		304 000
Sales (net)	180 000	150 000	473 000	

ACTIVITY 4

You are required to draw up the following general ledger accounts of ALCAPONE CAFÉ for the year ended 31 December 20.2

- ↑ Purchases account
- ↑ Trading account

Information:

2. Extract from the pre-adjustment trial balance on 31 December 20.2

Trading stock 1 January 20.2	R45 700
Purchases	38 400
Carriage on purchases	7 300
Debtors allowances	3 900
Creditors allowances	2 800
Sales	145 000
Carriage on sales	4 600

3. Adjustments and additional information:

- 2.1 Trading stock on hand, 31 December 20.2 R32 300.
- 2.2 Donated R200 worth of goods to local charity.
- 2.3 The owner took R1 800 worth of stock for his own use.
- 2.4 A debtor, B. Bush, returned goods.
Selling price R1 000
- 2.5 An amount of R100 was incorrectly recorded as a stock purchases instead of a packing material purchases.
- 2.6 The following invoice received from Malone and Co has not yet been recorded.

	R
Merchandise	6 000
Less: Trade discount	<u>(600)</u>
	5 400
Plus: Delivery charges	<u>200</u>
Amount due	<u>5 600</u>

ACTIVITY 4

ANSWER SHEET

GENERAL LEDGER OF ALCOPONE CAFÉ

Nominal accounts section

Dr						Purchases account						N1		Cr	
20.2 Dec.	31	Balance	b/d			20.2 Dec.	31	Donations	GJ						
		Creditors control	GJ					Drawings	GJ						
								Packing material	GJ						
								Creditors allowances	GJ						
								Trading account	GJ						

Final accounts section

Dr		Trading account				F1		Cr	
20.2 Dec.	31	Opening stock	GJ		20.2 Dec.	31	Sales (net)	GJ	
		Purchases (net)	GJ				Closing stock	GJ	
		Carriage on purchases	GJ						
		Profit & loss account (Gross profit)	GJ						

No cost of sales in Trading account, therefore the cost of sales has to be calculated.

R

Initial / Opening stock

Add: Purchases (net)

Add: Carriage on purchases

Cost of goods available to be sold

Less: Final / Closing stock

Cost of sales

(_____)

Sales (net)

Cost of sales

Gross Profit

(_____)

ACTIVITY 5

INSTRUCTIONS

Analyse the following entries as indicated in the example:

Example: Purchased merchandise on credit from a wholesaler.

GENERAL LEDGER

PERPETUAL INVENTORY SYSTEM		PERIODIC INVENTORY SYSTEM	
ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED	ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED
Trading stock	Creditors control	Purchases	Creditors control

4. Purchased merchandise and paid by cheque.
5. The owner took merchandise at cost price for personal use.
6. Sold goods by credit card to a customer.
7. Pay carriage on purchases by cheque.
8. Prepare a closing transfer for opening stock.
9. Prepare a closing transfer for closing stock.
10. Sold goods on account to a customer.
11. Prepare a journal entry for stock shortage on the last day of the financial year.

ACTIVITY 5

ANSWER SHEET

PERPETUAL INVENTORY SYSTEM		PERIODIC INVENTORY SYSTEM	
ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED	ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED
Trading stock	Creditors control	Purchases	Creditors control
1			
2			
3			
4			
5			
6			
7			
8			

ACTIVITY 6

The following information relates to Tendem Traders.

1. Transactions for June 20.3

- | | |
|--------|--|
| June 2 | Purchased merchandise from Cronje Ltd and paid by cheque, R35 000. |
| 7 | Purchased merchandise on credit from Swanepoel Wholesalers for R105 000. The invoice includes delivery charges of R1 000 and a trade discount of R3 000. |
| 10 | Sold goods on credit to G. Els for R90 000, which includes a 25 % mark-up on cost price. |
| 14 | Returned merchandise to Swanepoel Wholesalers, cost price R4 000. |
| 23 | Sold goods, costing R30 000 at cost price plus 25 % for cash. |
| 28 | Received merchandise back from G. Els, sold to him at R1 200. |

2. Additional information:

Stock on hand:	
1 June 20.3	R105 000
30 June 20.3	R140 000

Required:

- The ledger accounts to record the above transactions in the **general ledger** (including the trading account but excluding the bank, debtors and creditors control accounts), properly balanced/closed off for June 20.3, if the **periodic inventory system** is in use.
- The ledger accounts to record the above transactions in the **general ledger** (including the trading account but excluding the bank, debtors and creditors control accounts), properly balanced/closed off for June 20.3, if the **perpetual inventory system** is in use.

ACTIVITY 6

ANSWER SHEET

PERIODIC INVENTORY SYSTEM

GENERAL LEDGER OF TANDEM TRADERS

Balance sheet accounts section

Dr		Trading stock						B9		Cr	

Nominal accounts section

Dr		Purchases account						N15		Cr	

Dr		Carriage on purchases						N16		Cr	

Dr		Opening stock						N17		Cr	

Dr		Closing stock						N18		Cr	

Dr		Sales						N19		Cr	

Dr		Debtors allowances						N20		Cr	

Final accounts section

Dr						Trading account						F1		Cr			
																	-
																	-

Calculation of cost of sales

	R
Opening stock	
Purchases (net)	
Carriage on purchases	
Cost price of goods available to be sold	_____
Closing stock	
Cost of sales	_____
Sales (net)	
Cost of sales	
Gross Profit	_____

PERPETUAL INVENTORY SYSTEM

GENERAL LEDGER OF TANDEM TRADERS

Balance sheet accounts section

Dr				Trading stock				B9		Cr	
											-
											-
											-
											-
											-
											-
											-

Nominal accounts section

Dr				Sales				N1		Cr	

Dr				Cost of sales				N2		Cr	

Dr				Debtors allowances				N3		Cr	

Dr				Trading stock surplus				N4		Cr	

Final accounts section

Dr				Trading account				F1		Cr	

INVENTORY CONTROL SYSTEMS

ACTIVITY 1

SOLUTION

GENERAL LEDGER OF GG STORES

Balance sheet accounts section

Dr		Trading stock					B9					Cr
20.2 Jan.	1	Balance	b/d	30 000	-	20.2 Dec.	31	Opening stock	GJ	30 000	-	
Dec	31	Closing stock	GJ	35 000	-							

Nominal accounts section

Dr		Creditors allowances					N15					Cr
20.2 Dec.	31	Purchases account	GJ	20 000	-	20.2 Dec.	31	Balance/Total	b/d	20 000	-	

Dr		Purchases account					N16					Cr
20.2 Dec.	31	Balance/Total	b/d	300 000	-	20.2 Dec.	31	Creditors allowances	GJ	20 000	-	
								Trading account	GJ	280 000	-	
				300 000	-					300 000	-	

Dr		Carriage on purchases					N17					Cr
20.2 Dec.	31	Balance/Total	b/d	25 000	-	20.2 Dec.	31	Trading account	GJ	25 000	-	

Dr		Opening stock					N18					Cr
20.2 Dec.	31	Trading stock	GJ	30 000	-	20.2 Dec.	31	Trading Account	GJ	30 000	-	

Dr				Closing stock				N19				Cr	
20.2 Dec.	31	Trading account	GJ	35 000	-	20.2 Dec.	31	Trading stock	GJ	35 000	-		

Final accounts section

Dr				Trading account				F1				Cr	
20.2 Dec.	31	Opening stock	GJ	30 000	-	20.2 Dec.	31	Sales (net)	GJ	400 000	-		
		Purchases (net)	GJ	280 000	-			Closing stock	GJ	35 000	-		
		Carriage on purchases	GJ	25 000	-								
		Profit & loss account (Gross profit)	GJ	100 000	-								
				435 000	-					435 000	-		

	R
Initial stock/Opening stock	30 000
Add: Purchases (net)	280 000
Add: Carriage on purchases	<u>25 000</u>
Cost price of goods available to be sold	335 000
Less: Final stock/Closing stock	(35 000)
Cost of sales	<u>300 000</u>
Sales (net)	400 000
Cost of sales	(300 000)
Gross profit	<u>100 000</u>

ACTIVITY 2

SOLUTION

YEAR	20.1	20.2	20.3
Opening stock	45 000	30 000	35 000
Purchases (net)	425 000	250 000	300 000
Carriage on purchases	10 000	NIL	15 500
Closing stock	(30 000)	(35 000)	(20 000)
Cost of sales	450 000	245 000	330 500

ACTIVITY 3**SOLUTION**

CASE	1	2	3	4
Initial stock / Opening stock	46 000	64 000	91 000	60 900
Purchases (net)	136 000	144 000	298 000	906 000
Carriage on purchases	18 000	12 000	144 000	23 500
Cost of goods available to be sold	200 000	220 000	533 000	990 400
Final stock / Closing stock	(50 000)	(110 000)	(81 000)	(80 400)
Cost of sales	150 000	110 000	452 000	910 000
Gross profit	30 000	40 000	21 000	304 000
Sales (net)	180 000	150 000	473 000	1 214 000

ACTIVITY 4

SOLUTION

GENERAL LEDGER OF ALCOPONE CAFÉ

Nominal accounts section

Dr						Purchases account						N1		Cr	
20.2 Dec.	31	Balance	b/d	38 400	-	20.2 Dec.	31	Donations	GJ	200	-				
		Creditors control	GJ	5 400	-			Drawings	GJ	1 800	-				
								Packing material	GJ	100	-				
								Creditors allowances	GJ	2 800	-				
								Trading account	GJ	38 900	-				
				43 800	-					43 800	-				

Dr						Trading account						F1		Cr	
20.2 Dec.	31	Opening stock	GJ	45 700	-	20.2 Dec.	31	Sales (net)	GJ	140 100	-				
		Purchases (net)	GJ	38 900	-			Closing stock	GJ	32 300	-				
		Carriage on purchases	GJ	7 500	-										
		Profit & loss account (Gross profit)	GJ	80 300	-										
				172 400	-					172 400	-				

	R
Initial / Opening stock	45 700
Add: Purchases (net)	38 900
Add: Carriage on purchases	<u>7 500</u>
Cost of goods available to be sold	92 100
Less: Final / Closing stock	<u>(32 300)</u>
Cost of sales	<u>59 800</u>
Sales (net)	140 100
Cost of sales	<u>(59 800)</u>
Gross profit	<u>80 300</u>

ACTIVITY 5

SOLUTION

GENERAL LEDGER

PERPETUAL INVENTORY SYSTEM		PERIODIC INVENTORY SYSTEM		
ACCOUNT TO BE DEBITED		ACCOUNT TO BE CREDITED	ACCOUNT TO BE DEBITED	ACCOUNT TO BE CREDITED
Trading stock		Creditors control	Purchases	Creditors control
1	Trading stock	Bank	Purchases	Bank
2	Drawings	Trading stock	Drawings	Purchases
3	Bank	Sales	Bank	Sales
	Cost of sales	Trading stock		
4	Trading stock	Bank	Carriage on purchases	Bank
5			Trading account	Opening stock
6			Closing stock	Trading account
7	Debtors control	Sales	Debtors control	Sales
	Cost of sales	Trading stock		
8	Trading stock deficit	Trading stock		

ACTIVITY 6

SOLUTION

PERIODIC INVENTORY SYSTEM

GENERAL LEDGER OF TANDEM TRADERS

Balance sheet accounts section

Dr		Trading stock				B9				Cr	
20.3 June	1	Balance	b/d	105 000	-	20.3 June	1	Opening stock	GJ	105 000	-
	30	Closing stock	GJ	140 000	-						

Nominal accounts section

Dr		Purchases account				N15				Cr	
20.3 June	2	Bank	CPJ	35 000	-	20.3 June	14	Creditors control	CAJ	4 000	-
	7	Creditors control	CJ	103 000	-		30	Trading account	GJ	134 000	-
				138 000	-					138 000	-

Dr		Carriage on purchases				N16				Cr	
20.3 June	7	Creditors control	CJ	1 000	-	20.3 June	30	Trading account	GJ	1 000	-

Dr		Opening stock				N17				Cr	
20.3 June	1	Trading stock	GJ	105 000	-	20.3 June	30	Trading account	GJ	105 000	-

Dr		Closing stock				N18				Cr	
20.3 June	30	Trading account	GJ	140 000	-	20.3 June	30	Trading stock	GJ	140 000	-

Dr		Sales				N19				Cr	
20.3 June	30	Debtors allowances	GJ	1 200	-	20.3 June	10	Debtors control	GJ	90 000	-
		Trading account	GJ	126 300	-		23	Bank	CRJ	37 500	-
				127 500	-					127 500	-

Dr				Debtors allowances				N20		Cr	
20.3 June	28	Debtors control	DAJ	1 200	-	20.3 June	30	Sales	GJ	1 200	-

Final accounts section

Dr				Trading account				F1		Cr	
20.3 June	30	Opening stock	GJ	105 000	-	20.3 June	30	Sales	GJ	126 300	-
		Purchases	GJ	134 000	-			Closing stock	GJ	140 000	-
		Carriage on purchases	GJ	1 000	-						
		Profit and loss	GJ	26 300	-						
				<u>266 300</u>	-					<u>266 300</u>	-

Calculation of cost of sales

	R
Opening stock	105 000
Purchases (net)	134 000
Carriage on purchases	<u>1 000</u>
Cost price of goods available to be sold	240 000
Closing stock	<u>(140 000)</u>
Cost of sales	<u>100 000</u>
Sales (net)	126 300
Cost of sales	<u>(100 000)</u>
Gross Profit	<u>26 300</u>

PERPETUAL INVENTORY SYSTEM

GENERAL LEDGER OF TANDEM TRADERS

Balance sheet accounts section

Dr		Trading stock					B9		Cr		
20.3 June	1	Balance	b/d	105 000	-	20.3 June	10	Cost of sales	DJ	72 000	-
	2	Bank	CPJ	35 000	-		14	Creditors control	CAJ	4 000	-
	7	Creditors control	CJ	104 000	-		23	Cost of sales	CRJ	30 000	-
	28	Cost of sales	DAJ	960	-		30	Balance	c/d	140 000	-
	30	Trading stock surplus	GJ	1 040	-						
				246 000	-					246 000	-
July	1	Balance	b/d	140 000	-						

Nominal accounts section

Dr		Sales					N1		Cr		
20.3 June	30	Debtors allowances	GJ	1 200	-	20.3 June	10	Debtors control	DJ	90 000	-
		Trading account	GJ	126 300	-		23	Bank	CRJ	37 500	-
				127 500	-					127 500	-

Dr		Cost of sales					N2		Cr		
20.3 June	10	Trading stock	GJ	72 000	-	20.3 June	28	Trading stock	DAJ	960	-
	23	Trading stock	CRJ	30 000	-		30	Trading account	GJ	101 040	-
				102 000	-					102 000	-

Dr		Debtors allowances					N3		Cr		
20.3 June	28	Debtors control	DAJ	1 200	-	20.3 June	30	Sales	GJ	1 200	-

Dr		Trading stock surplus					N4		Cr		
20.3 June	30	Profit and loss	GJ	1 040	-	20.3 June	30	Trading stock	GJ	1 040	-

Final accounts section

Dr						Trading account						F1		Cr	
20.3 June	30	Cost of sales	GJ	101 040	-	20.3 June	30	Sales	GJ	126 300	-				
		Profit and loss	GJ	25 260	-										
				126 300	-							126 300	-		

